

**Memorandum for:**

103

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United Kingdom

The British will be looking at the Williamsburg Summit with elections in mind. Although the Conservatives continue to lead in opinion polls, Thatcher is concerned with the slow British recovery and will want public emphasis on what appears to be a world economic upturn. [REDACTED]

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Thatcher will urge a cautious approach to monetary and fiscal policy that maintains progress on inflation while allowing for limited stimulative measures. She will urge industrial countries to get spending under control, will push the US to ease its interest rates further, and will call on all nations to continue to fight what the British fear is a growing protectionist mood. Although concerned with record unemployment at home, Thatcher believes little can be done to reduce it in time to help her with the elections, which must be held by May 1984 but could come as early as this June. At best, she will be willing to ease her own monetary policies slightly because falling oil revenues have left her little room to increase spending without creating excessive budget deficits. [REDACTED]

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Thatcher will press for liberalization of trade in services and reductions in barriers to British goods, especially steel and high technology items. At the same time, she will resist pressure to reduce subsidies to British industry because of the continuing unemployment problem. She may be willing to explore some reduction of European Community protectionism on agricultural products by modifying the Common Agricultural Policy, although the British realize that several of their Community partners will resist any concessions to the US on this issue. Thatcher would probably like a conciliatory US stance on East-West trade in the interests of Western unity and economic growth, although the British continue to be willing to examine ways of tightening COCOM controls on particularly sensitive high technology items. [REDACTED]

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Perhaps most important, with elections on the way Thatcher will want to enhance her reputation as a strong and respected leader, avoid the appearance of undue concessions to US positions, and demonstrate that the West is united on economic and political issues but is not inflexible on arms control. She will use the Summit for consultations with other leaders on a wide variety of problems, including approaching her colleagues for support on the British position in the Falklands and looking for promises of cooperation should Argentina again provoke a confrontation. Thatcher will also urge the United States to be more flexible in arms talks with the Soviets as the best way to undercut the anti-nuclear movement in Western Europe; she is also likely to ask the US to take a conciliatory line on trade disputes over agriculture, steel, and East-West economic relations. [REDACTED]

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West Germany

The West Germans hope that the Williamsburg Summit will focus on the global economic situation, with the goal of sending a message that the industrial nations are on the road to recovery. The West Germans are likely to want this message supported by a statement delineating how the West generally can sustain the recovery and how the Seven specifically can contribute. [REDACTED]

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In general, the West Germans hope to avoid another Versailles, which in their view was unsuccessful. The West Germans will resist efforts to center the Summit around East-West economic issues. They believe such concentration would detract from the important political message the Summit should send; would accomplish little in real terms, and would expose differences among the Seven at a time when unity is needed. The West Germans will want protectionism and LDC debt to receive more attention than East-West issues. They also will push for discussions on US-EC agricultural differences. [REDACTED]

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France

The French want to avoid a show of Western disunity at Williamsburg, and they probably would prefer a loosely structured meeting. Although Mitterrand questions whether it would be a "good idea" to avoid a formal communique, as others have suggested, we believe he might agree to drop a communique if it promised to reveal disagreement on key issues. Paris wants the clear thrust of the meeting to be on coordinating Western strategy to promote economic growth in the industrial democracies and the Third World. [REDACTED]

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The French anticipate difficulties with the US over East-West trade and do not want this issue to occupy center stage. [REDACTED]

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[REDACTED] France will seek to rally its European partners against any US pressures in that direction, although it is willing to support restrictions on technology with clear military uses. [REDACTED]

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US agricultural sales to traditional EC markets in the Third World -- for example, the grain sale to Egypt -- are also a sore point. The French may not want to raise this as a specific Summit issue, but they probably will want some time devoted to the broader issue of protectionism and the avoidance of a "trade war" among Western countries. [REDACTED]

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Paris is preoccupied by the weakness of the franc -- a third devaluation under the Socialists appears imminent -- and they have publicly hinted at initiatives aimed at "restoration of monetary order." They have spoken favorably of the Versailles-mandated intervention study and are likely to urge steps to provide greater coordination among principal currencies. They are also likely to urge a unified Western strategy to handle the effects on international financial structures of a drop of oil prices that appears uncontrolled or unsustainably large. [REDACTED]

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The French remain somewhat resentful of US indifference to their high technology initiative at Versailles, but they are not likely to raise the issue in any dramatic way. Mitterrand may instead focus on Western assistance to the Third World and argue that effective aid programs will promote the economic recovery of the West. He is on record as supporting action to stabilize raw materials prices, enhance self-sufficiency in food, and diversify energy sources in the Third World. [REDACTED]

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Italy

Italian officials have begun preliminary preparations for Williamsburg, with the Summit almost certainly figuring prominently in recent discussions between Prime Minister Fanfani and the other West European leaders -- a dialogue that will expand and accelerate as the Summit approaches. [REDACTED]

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Rome's reaction to the President's 28 January message on the Summit was favorable, and the Italians agree that the talks should be as informal as possible. During recent meetings with US officials, Italy's Sherpa, Ambassador Paolini, suggested that time be set aside for political discussions including INF. Paolini dismissed the observation that having the Japanese at Williamsburg might make INF an inappropriate topic, noting that while the Japanese are not NATO members, the SS-20 question is as important to them as it is to the West Europeans. [REDACTED]

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The Italians, in line with Foreign Minister Colombo's emphasis on energizing Italian foreign policy, will probably try to play an active role at the Summit. We believe they will agree to a wide-ranging exchange on East-West relations, although they will not want the subject to dominate the talks. Rome may be relatively outspoken on the protectionism problem. Italy, a longtime advocate (and generally a practitioner) of free trade, is worried about growing support for protectionism in the US and may question US participants at the Summit about anticipated US trade legislation. [REDACTED]

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Canada

Canadian Prime Minister Trudeau will look to the Williamsburg Summit primarily as an opportunity to voice Canada's opposition to protectionist trade policies, although his government continues to pursue nationalistic investment policies and restrictive trade measures. With Canada currently suffering through its worst economic slump since the 1930s, Trudeau has recently been involved in intensive efforts, including personal "sales trips" to the southwestern Pacific, Japan, and the Caribbean, to increase Canada's export trade in natural resources, agricultural products, and manufactured goods. At Williamsburg, Trudeau probably will privately express Canada's fear that the United States is becoming increasingly protectionist. [ ]

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Canada has long supplied large amounts of grain to the Soviet Union and achieved some additional success in 1982 by concluding a grain sale with, and extending export credits to, East Germany. In addition, Canada has sought, over the past several years, to expand its exports of manufactured goods to the East, particularly of sophisticated high-technology equipment and machine tools for the oil and natural gas industries. Canada probably will not raise the issue of East-West trade but if the topic is raised by others, the Canadians will probably resist any effort to limit it. [ ]

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Ottawa probably will seek to achieve the group's agreement on some means of stabilizing world oil prices. Canada's domestic oil prices are currently set at 75 percent of the prevailing world price. As the world price declines, however, the Canadian government is finding it increasingly difficult to adhere to this formula because it drastically reduces the federal government's revenues and adds to what is already a record budget deficit. [ ]

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Ottawa will emphasize its concern over the possibility of default by LDCs. Canadian banks have made substantial loans to several, including Brazil and Argentina. Trudeau has recently urged that the International Monetary Fund and other international financial institutions take immediate steps to facilitate the restructuring and stabilization of LDC debt. [ ]

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On arms negotiations, the Canadians will look for firm commitments from US officials that Washington fully intends to pursue both parts of the "dual-track" policy. A strong, public US commitment to disarmament negotiations will help Ottawa combat domestic opposition to the recently concluded weapons testing agreement. [ ]

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Canada has traditionally been one of the staunchest supporters of Washington's human rights policy and this support is likely to continue. Nevertheless, Trudeau may well undertake a quiet effort at the Summit to make explicit Canada's desire to see an equitable, compromise resolution of the currently deadlocked controversy between the United States and Nicaragua. [ ]

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Trudeau has long been a champion of the North-South process, but it seems likely that he will make only perfunctory references to the North-South dialogue at the upcoming Summit. Trudeau believes that the extreme demands made by some of the more radical members of the Third World-dominated G-77 Group -- i.e., Cuba and Algeria -- have wiped out the opportunity for progress arising from the Versailles Summit of 1982. Exasperated by the radicals' behavior, Trudeau likely will be a much less vocal advocate of global negotiations at Williamsburg than he was at summits past. [REDACTED]

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Japan

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The Ministry of Industry and Trade (MITI) is just starting work on a position paper dealing with international economic institutions.

- o The US Embassy in Tokyo has learned that MITI is studying a 12-member group as an alternative to the current method of GATT management. The group would be composed of the quadripartite countries plus eight regional representatives.

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- o Japan generally favors expansion of soft loan facilities, viewing such a position as one way to improve its image in the Third World.

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The Japanese are trying to resolve bilateral trade disputes with Big-Seven countries in hopes of heading off confrontation at Summit meetings.

- o Japan and the European Community have agreed to a temporary trade truce and in July the European Foreign Ministers will review the effectiveness of the agreement, which sets specific limits on Japanese exports of VTRs and color TV tubes and calls for continued

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moderation of exports of passenger cars, color TVs, and machine tools.

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The Japanese delegation to the March meeting may be prepared to discuss the impact of falling oil prices on their economy.

- o Japan's Economic Planning Agency, using its world economic model, calculates that a 10-percent drop in oil prices would -- in the first year -- add 0.2 percentage points to the country's real GDP growth, reduce the inflation rate by 1.4 percentage points, and improve the current account by \$2.2 billion.
- o MITI is evaluating the impact of falling oil prices on individual industries. They will use this information to decide how much of the oil price decrease to pass along to energy consumers, how much to tax away, and how much to allow the energy industry to retain as profits.
- o The Industry Ministry also is reviewing the nation's long-term energy plan.

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